HOUSING MARKET OUTLOOK

St. John's - Fall 2005

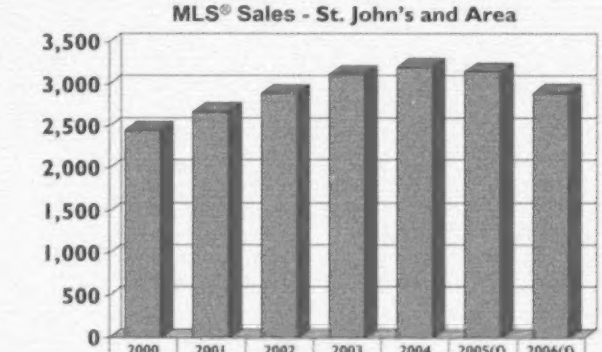
Demand for Housing Eases Again Next Year

While demand for housing within the St. John's region will remain relatively strong in historical terms, expect another year of easing activity in 2006. With interest rates expected to trend upward and house prices continuing to rise, affordability will deteriorate. A lackluster performance in the local labour market and only modest income growth will also moderate housing demand. Despite these conditions, migration to the region will continue and help to cushion some of the impact.

MLS® SALES HIT TURNING POINT

After a decade of sustained growth, the local resale market has hit a turning point and is expected to edge lower this year and next. Steady price increases in recent years in tandem with rising interest rates will push monthly carrying costs higher and cause housing demand to ease gradually, particularly among first-time buyers. While these conditions will temper

MLS® Sales Hit Turning Point



	2000	2001	2002	2003	2004	2005(f)	2006(f)
MLS® Sales	2,453	2,675	2,893	3,119	3,203	3,150	2,900

Source: Eastern Newfoundland Real Estate Board, CMHC forecast.

In This Issue

1 Resale Market : MLS® Sales hit turning point

2 Balanced conditions limit price growth

2 New Homes Market : Pace of new home construction slows

3 Multiple starts also edge lower next year

3 Rising cost of new homes causing demand spillover to the resale market

4 Moderate rise in mortgage rates in 2006

4 Forecast Summary Table

MLS® - Multiple Listing Service is a registered certification mark owned by the Canadian Real Estate Association.

Canada

CMHC SCHL
HOME TO CANADIANS

demand, a sustained rise in listings will keep sales at a relatively strong pace. Accordingly, MLS® residential sales through the Eastern Newfoundland Real Estate Board will fall by 7.9 per cent to 2,900 units in 2006. The surge in active listings over the past 12 months has provided more choice in the marketplace and lured buyers away from the new homes market. This demand spillover has been a major reason behind the strong level of MLS® sales activity throughout 2005. As a result of this already strong performance, MLS® residential sales are forecast to edge down by a modest 1.7 per cent to 3,150 units this year.

Balanced Conditions to Limit Price Gains Next Year

Bungalow

	July 2003	July 2004	July 2005	July 2006(f)
St. John's East	$154,000	$161,000	$170,000	$174,000
St. John's West	$146,000	$155,000	$165,000	$168,000
Mount Pearl	$143,000	$152,000	$162,000	$165,000

Two Storey

	July 2003	July 2004	July 2005	July 2006(f)
St. John's East	$200,000	$220,000	$243,000	$252,000
St. John's West	$196,000	$212,000	$235,000	$244,000
Mount Pearl	$197,000	$220,000	$236,000	$245,000

Source: CMHC Benchmark House Price Survey.

BALANCED CONDITIONS LIMIT PRICE GAINS

As previously forecast, following three years of favouring sellers, the local resale market moved to a balanced position in mid 2005. While demand pressures have eased somewhat, the main factor behind the move to balanced conditions stems from the sustained increase in supply. With balanced conditions expected to prevail throughout 2006, the level of price growth will also ease. An active move-up market will sustain demand for two-storey homes and underpin a four per cent price increase next year, slightly lower than the six per cent anticipated in 2005. The rising cost of home ownership will likely result in reduced demand from first-time buyers. Higher heating costs and the fact that many potential buyers from within this group do not have equity to draw on for a downpayment will further erode demand from this group. Finally, with fewer first-time buyers, growth in bungalow prices will moderate to between two and three per cent in 2006. This will be approximately half the level achieved in 2005.

Local Resale Market Returns to Balanced Conditions

Source: Eastern Newfoundland Real Estate Board, CMHC.

New Homes Market

PACE OF NEW HOME CONSTRUCTION SLOWS

While new home construction will also remain strong by historical standards, a number of factors will cause the pace of activity to moderate this year and next. Economic conditions will remain favourable but not as strong as recent years. An expected decline in overall home buying demand will also serve to reduce residential construction activity. Sustained, albeit slower price growth, along with higher construction costs and rising mortgage rates will result in further gains in monthly carrying costs and freeze some potential buyers out of the market. Heightened competition from a growing supply of more affordably priced existing dwellings will also curtail housing starts over the forecast period. Accordingly, total housing starts will decline to 1,550 units this year and slip further to an estimated 1,450 units in 2006. While overall starts will decrease, expect the single-detached segment of the market to be most

Pace of New Home Construction Slows

	2000	2001	2002	2003	2004	2005(f)	2006(f)
Singles	825	875	1,093	1213	1,275	1,100	1,025
Multiples	110	154	257	391	559	450	425

Source: CMHC. Forecast 2005, 2006.

impacted as demand spillover from the resale market eases in response to this heightened competiton. On balance, single-detached starts will fall by 13.7 per cent this year to 1,100 units and decline by an additional 6.8 per cent to 1,025 units in 2006.

MULTIPLE STARTS ALSO EDGE LOWER IN 2006

After reaching a ten year high in 2004, multiple starts are forecast to falter this year and edge down again in 2006. The major reason for this year's decline relates to fewer starts of semi-detached units. This is not surprising given that in 2004, there were four times as many semi-detached starts as the year before. The ongoing demographic shift to older and smaller households will support a gradual increase in condominium starts in coming years while higher mortgage carrying costs will maintain demand for basement apartments. Overall, multiple housing starts will dip to 450 units in 2005 and fall further to 425 units in 2006.

RISING COST OF NEW HOMES CAUSING DEMAND SPILLOVER TO THE RESALE MARKET

So far this year, the average price growth of new homes has outpaced MLS® price growth in the St. John's area. The average absorbed price of newly built single- and semi- detached homes has increased 10.5 per cent going from $170,588 last year to $188,459. During the same time, the average price of a resale home has advanced 7.2 per cent to $141,227. In the January to August period of 2004, the average price difference between new single- and semi-detached homes and resale homes in the St. John's area was just short of $39,000. Over the same period of this year, that difference climbed to more than $47,000. This growing difference in prices has likely resulted in demand spillover from the new homes market to the resale market as some home buyers opt to purchase lower priced existing dwellings. This has been another factor in the year-to-date decline in single-detached starts. Indications are that this gap in new versus resale home prices may widen further in the short-term. Average MLS® price growth is expected to ease in line with weakening demand and a growing inventory of listings in the resale market. New home prices will be driven higher by rising land and construction labour costs. In addition, there is a risk of further new home price increases in the months ahead as wood product commodity prices escalate in reaction to the massive reconstruction efforts required along the Gulf Coast. This will boost demand for framing products and likely result in an even faster rate of growth in new home prices.

Price Difference Between New and Resale Homes in the St. John's Area Has Been Growing

Source: Canadian Real Estate Association, CMHC

MODERATE RISE IN MORTGAGE RATES IN 2006

Short-term mortgage rates move in tandem with the prime rate while mid- and long-term mortgage rates vary in response to the cost of raising funds in the bond markets. Posted mortgage rates are forecast to rise moderately as interest rates head up next year. However, tame inflation, a strong Canadian dollar vis-a-vis the U.S. dollar and slower economic growth will restrain the size and speed of the expected increases. One, three and five-year mortgage rates are forecast to be in the 4.50-5.75, 5.25-6.25, and 5.50-6.50 per cent range respectively in 2005-06.

St. John's Metropolitan Area
Fall 2005

RESALE MARKET	2004	2005(f)	% Chg	2006(f)	% Chg
MLS Average Monthly Active Listings	1,064	1,385	30.2%	1,400	1.1%
MLS Sales	3,203	3,150	-1.7%	2,900	-7.9%
Benchmark House Price (3 Bed. Bungalow, July)					
East	$159,000	$166,500	4.7%	$170,000	2.1%
West	$151,000	$158,000	4.6%	$161,000	1.9%
Mount Pearl	$148,000	$153,000	3.4%	$156,000	2.0%
NEW HOMES MARKET					
Absorption Rates (Monthly Average)					
Single and Semi-detached	111	90	-18.9%	85	-5.6%
Starts	1,834	1,550	-15.5%	1,450	-6.5%
Single	1,275	1,100	-13.7%	1,025	-6.8%
Multiple	559	450	-19.5%	425	-5.6%
Ownership	391	450	15.1%	395	-12.2%
Rental	0	0	0.0%	30	N/A
Average Absorbed New House Price	$179,165	$194,000	8.3%	$200,000	3.1%
RENTAL MARKET					
Vacancy Rate (October)	3.1%	5.0%		5.5%	
Rental Rate (annual % chg) 2 bdr	1.8%	4.0%		2.0%	
ECONOMIC OVERVIEW					
Mortgage rate (3 yr. term)	5.65%	5.64%		6.00%	
Mortgage rate (5 yr. term)	6.23%	6.05%		6.38%	
Employment growth	-600	1,250		750	
Net Migration	1,200	1,000		800	

Housing Market Outlook (Order no. 7365E) is published 2 times a year in May and October for the St. John's market. Annual subscriptions to **Housing Market Outlook** are $40.00 plus applicable taxes.

This publication is also available in French. For more information, or to subscribe, contact Michèle Merrick at the Atlantic Business Centre at (902) 426-4708.
Ce document est disponible en français. Veuillez communiquer avec Michèle Merrick au Centre d'affaires de l'Atlantique au (902) 426-4708.

© 2005 Canada Mortgage and Housing Corporation. All rights reserved. No portion of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means mechanical, electronic, photocopying, recording or otherwise without the prior written permission of Canada Mortgage and Housing Corporation. Without limiting the generality of the foregoing, no portion of this publication may be translated from English into any other language without the prior written permission of Canada Mortgage and Housing Corporation. The information, analyses and opinions contained in this publication are based on various sources believed reliable, but their accuracy cannot be guaranteed. The information, analyses and opinions shall not be taken as representations for which Canada Mortgage and Housing Corporation, or any of its employees shall incur responsibilities.